



## Ravinsky Wealth Management Group

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The summer has come and is nearly gone. While markets enjoyed a sense of calm for most of the season, the same cannot be said about the past few weeks. Volatility has resurfaced, and along with it, weakness in both global equity and fixed income markets. While inflation has been the major preoccupation for investors this year, another issue has emerged – the risk of recession and its impact to corporate profits. We discuss recent developments on both fronts below.

The U.S. Consumer Price Index (CPI) for August was released over the past week and it was up 8.3% year over year, below the reading for July but higher than expected. Food and energy price pressures remained elevated, although the latter recently declined as expected. More troubling may have been the core measure, which excludes food and energy. It was higher than expected and above the July reading. Moreover, it wasn't driven by one particular category but showed relatively broad pricing pressures.

Nevertheless, our view on inflation remains largely unchanged. More specifically, it should recede in the months to come. One doesn't have to look too far to understand why. Shelter is the largest component of inflation, accounting for nearly a third of U.S. CPI. It is made up of lodging away from home, rent, and housing-related costs. The latter two have shown no signs of slowing yet, and in fact increased in August. But, these two categories have historically followed home prices with a meaningful lag. We know home prices are under pressure as a result of substantially higher mortgage costs. As a result, it is just a matter of time, in our view, before trends in the largest component within the CPI basket begin to subside.

Inflation may also be at risk of falling victim to recessionary-like forces that appear to be on the rise. In recent days, a few industrial conglomerates ranging from aluminum and steel makers to shipping and parcel delivery companies have warned of weakening conditions in their respective businesses that have led them to issue profit warnings. Part of this appears to be cost-driven and a meaningful shift in demand away from goods towards services. Weakness overseas was also cited as a notable driver by some management teams. But, it's hard to imagine weaker demand avoiding its way into the North American economy. After all, the Bank of Canada and U.S. Federal Reserve have been aggressively tightening financial conditions with the hope that demand and activity would slow. We may finally be starting to see the impact of their actions.

A deteriorating economy is by no means something to look forward to. But, it may have the potential to have a lasting impact on inflation. Ultimately, that may prove to be a very important and constructive development for the longer-term return prospects of most asset classes. In the interim, we expect equities to remain vulnerable as markets digest the risks to corporate earnings. We believe that bouts of turbulence and broad market weakness often create opportunities to rebalance, reallocate, and unearth higher yielding and higher quality investments. We envision taking some of these actions in the future, just as we've done in prior episodes of market volatility.



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Sincerely,

The Ravinsky Wealth Management Group

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